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NATIONAL INTELLIGENCE DAILY CABLE

~~Saturday 8 April 1978~~ CC NIDC-78/082C



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NATIONAL SECURITY INFORMATION
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National Intelligence Daily Cable for Saturday, 8 April 1978.

The NID Cable is for the purpose of informing senior US officials.

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Philippines

USSR

MBFR

West Germany - Czechoslovakia
Cuba

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NIGERIA: Reaction to President's Visit

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[redacted] Nigerian Commissioner for External Affairs Garba, in a nationwide television interview on Tuesday, took a positive view of President Carter's visit. Garba is close to Head of State Obasanjo and plays a key role in shaping the government's policies on southern Africa.

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[redacted] Garba declared that the visit on the whole was "very useful." He said discussions between President Carter and Obasanjo cleared up Nigerian doubts about both the firmness of the US and UK's commitment to their joint proposals for a Rhodesian settlement, and the US position toward the internal settlement Prime Minister Ian Smith has worked out. Earlier this week, Obasanjo publicly reiterated Nigeria's support for the UK-US plan.

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[redacted] The commissioner said Nigeria supported another Malta-type meeting with the Patriotic Front and an all-parties conference on Rhodesia. Nigeria has already contacted leaders of the Patriotic Front to urge them to attend the former.

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[redacted] Garba also came the closest of any Nigerian to expressing public approval of the Western five-power contact group's proposals for Namibian independence. He seemed to reject the hard-line position on Walvis Bay taken by the Southwest Africa People's Organization. Garba implied that Nigeria, which backs SWAPO as the sole legitimate representative of the Namibian people, believes the status of Walvis Bay could be negotiated after independence. [redacted]

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SOUTH AFRICA: Tight New Budget

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[redacted] South Africa's annual budget, presented to Parliament in late March, continues the government's tight economic policy. The small tax incentives in the budget are designed to give at least a psychological boost to the white population, but they do very little to ease longstanding black grievances. Proposed defense expenditures, down \$115 million this year, partially reflect South Africa's inability to conclude major arms purchases because of the UN arms embargo.

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[redacted] South Africa has maintained tight reins on the economy since 1975 in order to protect the country's international financial position. Combined with weak foreign investor confidence and--until recently--low gold prices, this has resulted in a falling rate of economic growth that approached zero last year. The only stimulus in the budget is a 10-percent cut in income taxes for those in middle and upper brackets and a small reduction in surcharges on about one-third of all imports.

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[redacted] Partially offsetting the tax cut is a 4-percent retail sales tax, which will hit black consumers hardest. Although the budget allot more money for some domestic social programs, it will not alleviate the problem of widespread black unemployment nor help rectify other black grievances. Increased spending on housing for blacks, for example, will be more than offset by the rapidly growing demand. Increased spending on black schooling will not meet black demands for upgraded free compulsory education to bridge the gap between the black and white educational systems.

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[redacted] The defense budget remains almost unchanged from the last year, in contrast to the steep increases of past years. South Africa had increased defense expenditures by almost 40 percent annually during the past four years because it feared a rising Soviet and Cuban threat in southern Africa.

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[redacted] The new budget probably reflects both the completion of some military expansion programs and the effect of the UN arms embargo imposed last fall. The embargo resulted in the cancellation of some arms purchases. Defense expenditures will probably start to rise again in the next year or so as the government accelerates development of its domestic arms industry.

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[redacted] Sensitive to UN economic sanctions directed against its policy of apartheid, South Africa hopes to move as rapidly as possible toward self-sufficiency. Suppressing demand for imports and thus maintaining a current account surplus is a key feature of this policy. Foreign exchange surpluses will be used both to repay foreign debt that has built up over the past two years and to reduce the country's dependence on foreign capital.

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UN-ROMANIA: Embargoed Technology

25X1 [redacted] The UN Industrial Development Organization and the UN Development Program have agreed to assist Romania in the development of advanced integrated circuit technology. If successful, Romania will acquire an advanced manufacturing capability now embargoed by the West.

25X1 [redacted] The aid program, which is scheduled to last four years, includes a grant of \$190,000 to assist in the establishment of a pilot plant for integrated circuit fabrication. The UN funds will finance services of technical experts, fellowships for Romanian personnel, and the purchase of laboratory equipment.

25X1 [redacted] Western countries that now possess most of the strategically important technology involved in the UN program have embargoed its sale to Communist countries. It is not clear how Romania intends to acquire the needed equipment and technology, because these Western countries have frustrated Romanian efforts to obtain most of the technology included in this package from an Italian firm. [redacted]

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CANADA: Alcan Gas Pipeline Project

25X1 [redacted] //The US-Canadian Alcan gas pipeline project moved one step closer to realization this week when the House of Commons approved the necessary enabling legislation. The Canadian Senate will probably pass the bill later this month. The National Energy Board's recent decision to give Canadian steel producers the inside track on lucrative pipe contracts for the Canadian section of the line, however, will increase estimated cost overruns, which are already hampering the pipeline consortium's plans for private financing. Official credit guarantees probably will be needed to raise the necessary financing, creating new political problems.//

25X1 [redacted] //The proposed bill allows Ottawa to block pipeline contracts that do not fulfill its definition of "maximum Canadian content." Critics charge that the maximum content provision is not sufficiently precise and that targets for the supply of Canadian manpower, pipe, services, and equipment should be spelled out.//

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[redacted] //The government says specific content provisions would restrain competition unnecessarily and that Canada can achieve maximum participation without such rigid guidelines. Foothill Pipe Lines (Yukon)--the prime Canadian contractor-- has repeatedly assured the government that it intends to achieve 90 percent Canadian input of materials and services in constructing the Canadian section of the line.//

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[redacted] //The decision by the National Energy Board to use 56-inch, low-pressure pipe for the Canadian section of the line--rather than the 48-inch, high-pressure pipe favored by the US--substantially boosted the chances that Canada will come closer to fulfilling the domestic content goals. Canadian industry is capable of producing only small quantities of 48-inch pipe. The 56-inch pipe, which Canadian sources claim is nearly as efficient as the smaller diameter pipe, can be produced in large quantities by several Canadian steel firms.//

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[redacted] //The use of 56-inch pipe will add nearly \$200 million to the total cost of the pipeline, which is already threatened by large overruns. The legislation now in Parliament, moreover, calls for the builders to bear the costs of an official agency that will be established to monitor construction. According to several unofficial estimates, the entire pipeline is now expected to cost at least 37 percent more than originally planned, and some Canadian officials now believe the Canadian section may eventually cost twice the original estimate of \$4.2 billion.//

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[redacted] //The threatened cost overruns are making it more difficult to arrange private financing for the pipeline. Even at the originally estimated \$10 billion cost for the entire project, private financing is an enormous undertaking. The consortium had planned to finance about one-fourth of the cost with its own capital and to borrow \$7.5 billion in medium- and long-term funds. Lenders have already indicated some hesitancy, however, because of the consortium's relatively limited financial resources and the possible cost overruns.//

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[redacted] //Negotiations are now under way on a Canadian-US gas swap agreement that would facilitate financing and allow early construction of southern sections of the pipeline. Such an agreement is still some distance off, however, because of its complexity and because Albertan Premier Lougheed is demanding tariff concessions on agricultural exports to the US.//

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[redacted] //The consortium may still be forced to call on Ottawa for official credit guarantees to attract the necessary capital. There is considerable parliamentary opposition to federal guarantees, but Prime Minister Trudeau might be willing to push for them if there is no other solution. Faced with record unemployment and sluggish investment outlays, the Canadian economy needs the boost that pipeline construction would afford. [redacted]

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TURKEY: IMF Loan Agreement

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[redacted] Turkey will receive just over \$450 million in loans from the International Monetary Fund under a letter of intent signed in Washington late last month. The negative effects of economic austerity measures taken to satisfy the IMF and other foreign lenders, however, could intensify political unrest.

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[redacted] The Turkish agreement with the IMF provides for an immediate drawing of \$90 million from the Fund's Compensatory Financing Facility, which offers balance-of-payments support to countries suffering from low export receipts. The remaining \$360 million will be provided under a standby arrangement consisting of six installments over two years, four from the Fund's regular resources and two from the pending Supplementary Financing Facility. The Fund's Board of Directors still must formally approve the agreement.

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[redacted] The letter of intent specifies the performance criteria that Turkey must meet to qualify for each disbursement. The criteria probably focus on monetary targets intended to achieve a sharp reduction in the current account deficit from last year's record \$3.4 billion. Details will not be published, however, until final IMF approval.

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[redacted] The monetary targets should complement actions already taken by the Ecevit and Demirel governments on the advice of Fund officials. These include two separate devaluations of the lira against the dollar totaling 30 percent, substantial increases in the prices of petroleum products and other state-produced goods, a lean 1978 budget, and restrictions on credit and foreign travel.

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[redacted] Turkey also removed exchange rate guarantees from new foreign currency deposits in Turkish banks and ended their use for import financing. In the past three years, Turkey financed nearly half of its cumulative current account deficit

through short-term deposits of this type, greatly increasing the country's interest burden and its vulnerability to demands for repayment on short notice.

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[redacted] Austerity measures will prove a bitter pill for Turkey. Import volume will have to be cut roughly 20 percent to reduce the current account deficit by the planned \$2 billion. Real GNP may not grow at all this year after averaging 7 to 8 percent annually over the last several years. Inflation is running at 40 to 50 percent, and 15 to 20 percent of the labor force is unemployed. With the population growing 2.5 percent annually, real per capita income may fall for the first time in over a decade.

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[redacted] Western banks, the IMF, and the US Government could become scapegoats for unfavorable economic developments.

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CHILE: Toward Constitutional Rule

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[redacted] Chilean President Pinochet's decision to advance the timetable for a transition to constitutional rule was made in response to continuing internal and external pressures on him to normalize political life in Chile. The announcement follows other recent changes designed to improve the country's international image.

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[redacted] In a nationwide speech on Wednesday, Pinochet said a new constitution will be ready by the end of the year and that a plebiscite could be held on it sometime thereafter. This advances by five years the schedule outlined by Pinochet last year.

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[redacted] Pinochet did not mention presidential elections and was vague about the overall timing of the process. Nevertheless, his cautious statement left the door open to even further modifications.

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[redacted] Although he emphasized that it is necessary for the armed forces to retain the "essence" of political power, Pinochet said civilians would share a larger role in government. He did not elaborate, but he may have been bidding for the cooperation of the Christian Democratic Party, the country's largest, which was banned in March 1977. The party will be reluctant to participate as long as restrictions on political activity remain in force.

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[redacted] Among other measures raised in his speech, Pinochet offered a wide-ranging program to pardon or to commute the sentences of all prisoners convicted by military courts for violating national security laws before and after the 1973 coup.

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[redacted] as many as 224 persons stand to benefit immediately. The releases will also close the books for all practical purposes on most cases that have interested human rights groups. [redacted]

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PERU: Shoring Up the Economy

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[redacted] //The Peruvian Foreign and Finance Ministers will arrive in the US soon to try to negotiate an agreement with the International Monetary Fund that would free loans urgently needed to keep Peru's economy afloat. They will also seek a rescheduling from commercial banks of some of the country's \$4.2 billion long-term foreign debt. The Peruvian initiative comes at a time of [redacted]

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[redacted] steadily declining confidence in President Morales Bermudez' ability to contain Peru's deepening economic crisis.//

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[redacted] Foreign Minister de la Puente and Finance Minister Saenz, who have requested a meeting with President Carter, will ask the US to use its good offices with the IMF to relax conditions on a \$105 million standby loan. Peruvian drawings were interrupted last month because of noncompliance with the terms of the loan. Peru will also seek US support for debt rescheduling.

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[redacted] International bankers have tied any debt rescheduling or extension of new balance-of-payments loans to Peru's continued eligibility for the IMF credit. There are doubts about the success of the IMF talks because of Peru's continuing reluctance to reduce excessive military spending. Failure to reach agreement would almost certainly force Peru either to declare a moratorium or to default on at least some of its international loan obligations within the next few months.

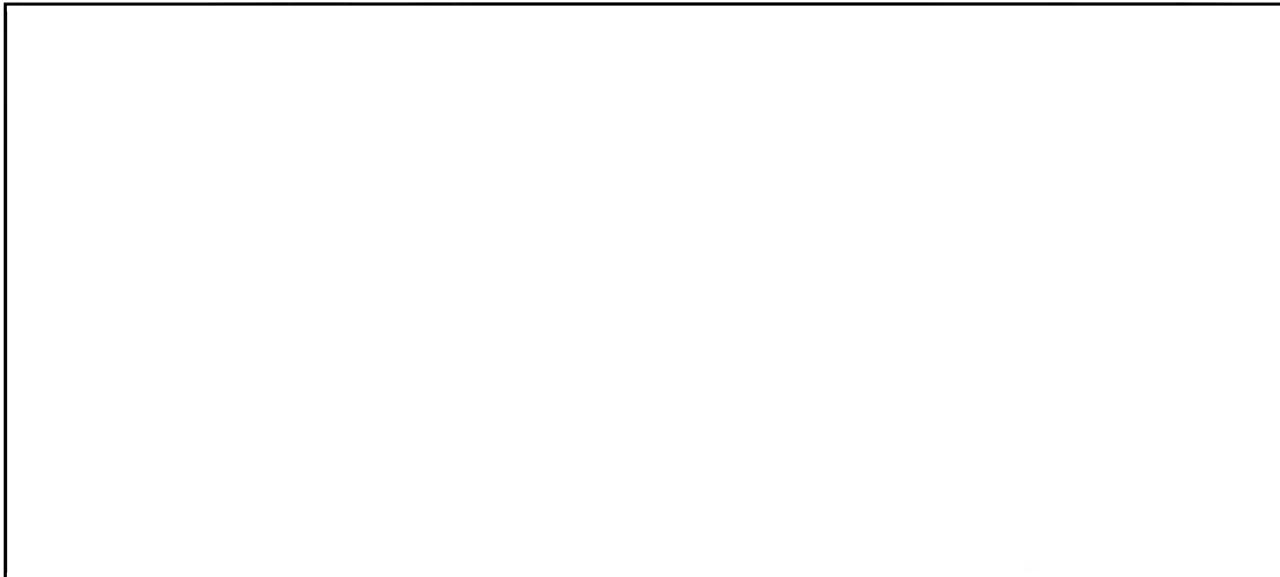
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[redacted] //Peru's decision to strengthen its delegation by including Foreign Minister de la Puente underscores the growing mood of desperation in Lima. [redacted]

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[redacted] A presidential plan for satisfying the IMF through severe budget cuts, greatly reduced food subsidies, a further devaluation of the sol, and a possible increase in gasoline prices ran into major opposition in the cabinet last week. There is no indication when--or if--these differences might be resolved.

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[redacted] //Even if Morales Bermudez gains cabinet approval of his austerity program, violent public reaction to these measures--like that of last summer--could force changes in the government, including the removal of the President himself.// [redacted]

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USSR: Trade Deficit Halved

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[redacted] The USSR last year had its first current account surplus in hard-currency transactions since 1974 and cut its trade deficit to less than half the 1976 figure.

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[redacted] Preliminary data indicate that the 1977 hard-currency trade deficit was \$2.4 billion, \$3 billion less than in 1976. Imports dropped by \$1.5 billion and exports rose by a like amount. Sales of gold--which because of higher prices reached a record \$1.55 billion--and other transactions countered the deficit and gave the Soviets a net current account surplus in hard-currency transactions of roughly \$300 million.

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[redacted] Soviet net borrowing fell to between \$1 billion and \$2 billion, compared to \$4 billion in 1976 and \$5 billion in 1975. Moscow's hard-currency debt in 1977 was \$15 billion to \$16 billion.

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[redacted] The Soviets will probably continue to emphasize a healthy hard-currency position, even at the expense of a decline in imports. Export growth will probably slow in 1978 and 1979 as oil exports first level off and then begin to decline. The \$2.4 billion drop in machinery orders last year will mean a further reduction in hard-currency imports this year. [redacted]

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BRIEFS

Philippines

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[redacted] The Philippine opposition charged the government with fraud and intimidation in President Marcos' parliamentary election victory yesterday, and this may lead to a period of heightened tension. There have already been some scattered incidents and demonstrations, but nothing of a scale that the police cannot manage.

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[redacted] Marcos may indeed try to claim that, with the defeat of the opposition's slate of candidates in Manila, his political foe, Senator Benigno Aquino, has now been permanently discredited as a force in Philippine politics. Already anticipating criticism on human rights, Marcos is defending the arrest of some opposition supporters on grounds that they were "subversives." [redacted]

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USSR

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[redacted] The USSR intends to use several more non-Soviet cosmonauts on missions to the Salyut-6 space station this year, according to an authoritative French publication. [redacted]

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[redacted] According to the French publication, a Polish cosmonaut will accompany a Soviet flight commander on a mission to Salyut-6 as early as next month. [redacted]

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[REDACTED] An East German cosmonaut is said to be scheduled for a July mission, and a Czechoslovak is apparently scheduled for later in the year.

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[REDACTED] The Soviets probably will also launch a military space station later this year manned exclusively by Soviet military crews as in the past. [REDACTED]

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MBFR

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[REDACTED] //At a special meeting of NATO's senior political committee on Thursday, West Germany said it would agree to the presentation of a Western initiative on force reductions before the current round of Mutual and Balanced Force Reductions talks in Vienna ends at mid-month.//

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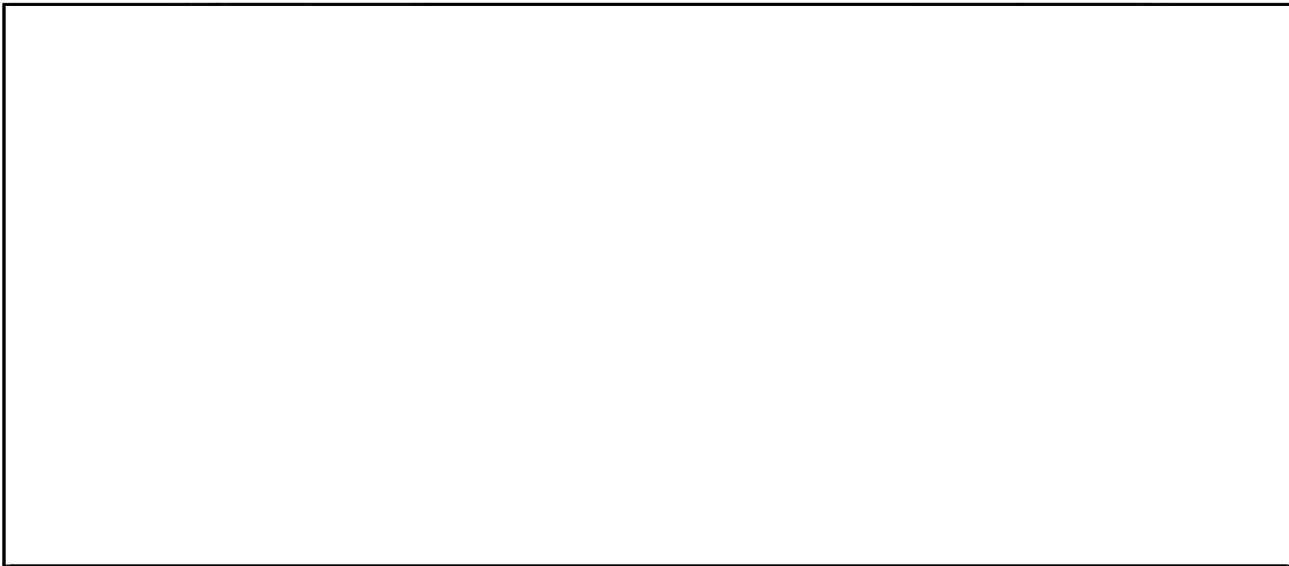
[REDACTED] //The initiative--which NATO approved last December--offers assurances to the East on the timing and size of Western reductions and no longer demands that the Soviets initially withdraw a tank army. Four other NATO members had deferred their decisions on the timing of the initiative. The Alliance will probably concur formally on Monday, permitting presentation of the initiative at Vienna later in the week.//

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[REDACTED] //West German State Secretary Van Well told the US on Thursday that Foreign Minister Genscher had hesitated to approve presentation of the initiative because he was concerned that its terms, coupled with the uncertainty over neutron warheads, might generate critical commentaries in the Western press. The prospect that Soviet President Brezhnev would want to focus on MBFR during his visit to Bonn early next month, however, persuaded the government to move ahead. [REDACTED]

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West Germany - Czechoslovakia

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[redacted] Czechoslovak President Gustav Husak on Monday begins a four-day state visit to West Germany. This is Husak's first trip to any West European country since the Soviet invasion of Czechoslovakia in 1968, and the first by a Czechoslovak head of state to West Germany since 1939.

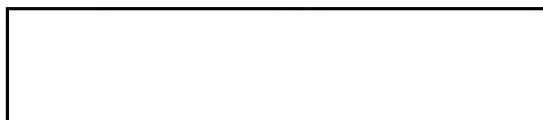
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[redacted] The event is important for its symbolism rather than for specific policy initiatives that may result. Husak has been trying to break the isolation his country has experienced since 1968, and Chancellor Schmidt is attempting to lend substance to *Ostpolitik* and reduce frictions in bilateral relations.

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[redacted] The two leaders will sign a cultural agreement and discuss several thorny issues, including West Germany's refusal to extradite Czechoslovak citizens who have hijacked Czechoslovak planes to West Germany in recent months. The Czechoslovak regime has spoken vaguely in the past about the need for Western economic assistance, but Husak is apparently not bringing a shopping list. [redacted]

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Cuba

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[redacted] Heavy rains from November through March have put Cuba's sugar cane harvest behind schedule. The Cubans can make up most of the lost time if they have fair weather through May but will probably fall somewhat short of their goal of 7.3 million tons. Cuba's public statements may deliberately exaggerate the gravity of the situation, however, in an attempt to boost low sugar prices.

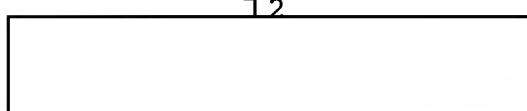
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[redacted] Cuba will need 6.8 million tons to cover both domestic and export requirements, including their 2-million-ton International Sugar Agreement quota for sales to non-Communist countries. Havana, however, will have trouble selling that quota in view of a surplus of sugar worldwide. [redacted]

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